

RD AN No. 4227 (4279-B, 4287-B, and 4280-B)
December 14, 2006

SUBJECT: Business and Industry Guaranteed Loan and Section 9006 Renewable Energy Systems and Energy Efficiency Improvement Guaranteed Loan Programs - Adjustments of Guaranteed Loan Interest Rates

TO: State Directors, Rural Development

ATTN: Business Programs Directors, Rural Development Managers, Community Development Managers

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to provide guidance regarding interest rate adjustments of Business and Industry (B&I) and Renewable Energy Systems and Energy Efficiency Improvement Guaranteed Loan (Section 9006) Programs guaranteed loans.

COMPARISON WITH PREVIOUS AN:

There is no previous AN on this subject.

IMPLEMENTATION RESPONSIBILITIES:

The National Office has become aware that some variable interest rate B&I guaranteed loans are being adjusted monthly. Monthly adjustments are not in compliance with Rural Development instructions governing the B&I program. In accordance with RD Instruction 4279-B, section 4279.125(a), variable rate loans are to be adjusted no more often than quarterly.

In accordance with RD Instruction 4279-B, section 4279.125, the interest rate for the guaranteed loan will be negotiated between the lender and the applicant and may be either fixed or variable as long as it is a legal rate. Interest rates will not be more than

EXPIRATION DATE:
December 31, 2007

FILING INSTRUCTIONS:
Preceding RD Instructions 4279-B,
4287-B, 4280-B

those rates customarily charged borrowers in similar circumstances in the ordinary course of business and are subject to Agency review and approval.

A variable interest rate agreed to by the lender and borrower must be a rate that is tied to a base rate agreed to by the lender and the Agency. The variable interest rate may be adjusted at different intervals during the term of the loan, but the adjustments may not be more often than *quarterly [Emphasis added]* and must be specified in the Loan Agreement. The lender must incorporate, within the variable rate Promissory Note at loan closing, the provision for adjustment of payment installments coincident with an interest rate adjustment. The lender will ensure that the outstanding principal balance is properly amortized within the prescribed loan maturity to eliminate the possibility of a balloon payment at the end of the loan.

If your office has approved loans where the interest rate is adjusted more often than quarterly, these loans are not in compliance with Agency regulations, and this should be corrected immediately. You should remind the lenders of the regulatory requirement, and the Promissory Note(s) should be written in accordance with Agency regulations. Any lender that is adjusting the rate on one or more loans more often than on a quarterly basis will need to make the requisite changes to comply with applicable B&I and Section 9006 regulations.

All Section 9006 guaranteed loans will be serviced in accordance with RD Instruction 4280-B, sections 4280.124 and 4280.152.

If you have any questions, please contact David Lewis, Chief, B&I Loan Servicing Branch at (202) 690-4103 or Melvin Padgett, Acting Chief, Specialty Lenders Division Servicing Branch, at (202) 720-1400.

(Signed by Russell T. Davis) for

JACKIE J. GLEASON
Administrator
Business and Cooperative Programs